

SMALL AND MEDIUM ENTERPRISE DEVELOPMENT

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I find it difficult to imagine what my tenure to date would have been like without the support of the USAID mission in Vilnius.

Not only did the Mission staff play an essential role in effectuating an amendment to the Company Law, which allowed the Fund to resume its commercial lending activities, but they were also continually able to provide me with invaluable insight into Lithuanian political,

macroeconomic and social issues.



Jeff Gawley

Director of the Baltic American Enterprise Fund



Aleksandras Targamadze
Vice-Rector of the Kaunas Technological University

The work with USAID on the establishment of the Management Training Center in Panevezys will remain in my memory as an example of great cooperation that brought benefits to both the partnership between the two countries and the development of science and technologies. I am certain that this training center will fruitfully serve the Lithuanian people.

Prior to the mid-1980's, private small and medium enterprises did not exist in Lithuania. The number has been growing swiftly since then. In 1992-1994, Lithuania experienced one of the sharpest economic downturns among the Former Soviet Republics, as its large public sector enterprises languished through the loss of traditional markets, while trying to implement market-based production, distribution and sales. But these years also saw the beginnings of the development of small and medium enterprises and of investor interest in Lithuania, which propelled a revival starting in 1995. The growth of the sector enabled a wider distribution of ownership, minimizing the concentration of economic power.

Strengthening small and medium enterprises is an important part of Lithuania's overall economic development effort. USAID has been involved with such enterprises since the inception of the program. For the first four years, program efforts were responsive to critical needs. In 1996, with the articulation of a more focused strategy, sector assistance and goals increasingly became better targeted and coordinated.

While initially there were several short-term activities directed at launching the development of small and medium enterprises, the key implementing partners for further assistance included the International Executive Service Corps, World Learning, World Environmental Council, Land O' Lakes, MBA Enterprise Corps, Volunteers of Cooperative Agriculture, Kaunas Technical University/Panevezys Management Training Center and Peace Corps. In addition to the above groups, the Lithuanian Free Market Institute (a local economic think tank) played an important role in drawing attention to key reform issues, engaging diverse opinions to be vetted publicly and fostering creative thinking during the transition period.

USAID has supported a number of key activities to strengthen this sector. These include:

- **Baltic-American Enterprise Fund:** The Baltic American Enterprise Fund (BalAEF) was established to promote private sector business by providing assistance on behalf of the U.S. Government. Through the infusion of new capital resources, BalAEF assists in the development of the small and medium enterprise sector in Estonia, Latvia, and Lithuania. The Fund was endowed by USAID with \$50 million. Since beginning operations in 1995, the Fund has been a financial partner for growth-oriented companies, entrepreneurs, and new homeowner families throughout the Baltic States. In total, BalAEF has disbursed \$34.9 million. Disbursements have generated \$13.7 million in returns of principal and interest. This new capital is used to finance market expansion,

product development, and state-of-the-art manufacturing capabilities. One successful BalAEF client is Lietpak, a leading manufacturer of printed plastic wrappings. Founded in 1989, Lietpak has quadrupled its earnings and doubled its workforce over the last three years. This firm's current success is tied to loans it received from the BalAEF in 1997 and 1998. BalAEF has made equity investments and commercial loans to 40 separate Lithuanian enterprises. Additionally, BalAEF set up a landmark program that has introduced residential mortgage loans to nearly 400 individuals and families in Lithuania. These loans indirectly support small and medium enterprises that provide building materials and construction services for these new residences.

- **Management Training Center at Kaunas Technical University/Panevezys** was established to: 1) strengthen the business skills of entrepreneurs, NGOs and local government authorities; 2) enhance the educational programs of Kaunas Technical University Panevezys and improve the skills of its regular faculty and instructors; and 3) to serve as an agent for change through training programs and service activities. Due to support from USAID, the Management Training Center now offers modern business management theories, stimulating the introduction of new management practices. Since 1995, the Center has served over 7000 people in Panevezys and throughout Lithuania. Several hundred jobs have been created or saved. The knowledge gained opened the doors to numerous opportunities for small and medium enterprises, and contributed to the expansion of their businesses.

- **Land O' Lakes** implemented a major part of USAID's early support of small and medium enterprise development. Overall assistance was provided to restructure agricultural enterprises, strengthen the production/distribution chain, refine marketing practices, and enhance efficiency and quality control. Land O' Lakes focused the dairy strengthening activities on the two most northern districts of Lithuania, Panevezys and Telsiai. Approximately 65 percent of the milk in Lithuania is processed within these two districts. The activities began with improved pasturing techniques to increase milk production rates and increased veterinarian care to improve raw milk quality. Improved techniques introduced at district veterinary stations has reduced milk testing times from five days to two and has substantially reduced test costs. At dairy processing plants, USAID improved plant sanitation, utilized new processing techniques, and introduced new product lines to increase production rates, reduce operating costs, and improve milk quality. Birzai Dairy, which as a result has become one of the best quality milk processors in the country, reduced operating costs by \$25,000 per day. For distribution and marketing, USAID assisted improvements in sales techniques, distribution and order systems, and customer support. USAID also supported development of trade associations, regulations for the dairy industry, and dairy policies. By strengthening the capacity of the industry as a whole, USAID set in motion a sustainable process of modernization.

■ IESC experts with participants of the Total Quality Management Seminar, 1995

■ VOCA volunteer shares U.S. experience with Lithuanian meat processors

■ The Nematekas meat processor benefit from VOCA guidance on sanitation, product development and marketing



USAID has built up by far the most distinct and dynamic activities in Lithuania. Over the years, it has demonstrated timely response to Lithuania's policy needs that called for special attention. For LFMI, cooperation with USAID was valuable in many respects, as a stimulus for focusing on issues requiring free market solutions, and for institutional development in Lithuania.



Elena Leontjeva
President of the Lithuanian
Free Market Institute

Dr. Eugenija Martinaitytė
Director of Lithuanian
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The decision of USAID together with other donors to establish a professional training body for the financial sector, and USAID's continuing efforts to help it develop into a sustainable institution, was the beginning of a success story for the Lithuanian Banking, Insurance and Finance Institute.

- Volunteers for Overseas Cooperative Assistance (VOCA) provided technical assistance to leading agricultural processing companies and cooperative farms. Between 1992 and 1997, a total of 139 agricultural organizations received assistance. Initially, training was provided to farmers and managers of cooperative farms. Through new veterinary techniques and improved feed regimes introduced by USAID, hog and poultry producers improved weight gains and dramatically increased revenues. USAID assisted previously state-owned farms to more successfully organize into cooperatives and private companies. Over 40 percent of the fastest growing cooperative farms have participated in this training program. Within the meat processing industry, USAID improved the operations of newly established small-scale plants whose business was developing rapidly. Assistance was provided to improve production techniques, enhance sanitation, and establish new products. The VOCA program was coordinated with the USAID U.S.-based training program, with an emphasis on the dairy and meat processing industries. By carefully focusing on the problems faced by agricultural producers and processors, and offering technical assistance from volunteer experts that was carefully designed to meet these problems, USAID helped import modern management systems, improve productivity and product quality, introduce new technology, and reduce production costs. The total economic impact of VOCA programs has been estimated at \$11 million; and over twenty thousand jobs were either created or saved. In 1993, USAID used VOCA to help institutionalize the Lithuanian Agricultural Advisory Service, to provide local training and information programs for farmers and agricultural processing enterprises.

- International Business Network: The International Executive Service Corps (IESC) project was one of the first small business oriented USAID programs started in Lithuania. Over the years the local office developed an excellent staff, with outstanding knowledge of both the Lithuanian economy and the U.S. way of doing business, and maintained an extensive contact list in both countries. These resources provided the basis for a unique consulting firm. The local IESC director and staff incorporated as a new Lithuanian company, International Business Network (IBN). They negotiated an agreement with IESC to be their representative to provide volunteers for Lithuania consultations. IBN created a network of former IESC volunteers, who in turn identified potential investors for Lithuania and prepared a list of sectors where foreign investment would be most welcome. IBN is viewed as an important step in the effort to create linkages between the US and Lithuania which is supportive of Lithuanian development, while making maximum use of Lithuanian skills and resources.

- Kaunas Regional Association of Small and Medium Enterprise (KRASME) promotes citizen participation in the decision-making process, by defending the rights of small and medium enterprises, representing their interests before state institutions, fighting corruption, initiating amendments to legislation, drafting laws, and maintaining relationships with international institutions. There are over 250 members in the organization, with representatives in the Business Committee at the Ministry of Economy and the Council of NGO's. The chairman of the board serves as state consultant for Prime Minister's office and advisor to the Business Committee of the National Parliament. Using these channels, they have achieved excellent results through advocacy for new regulations to produce a better environment for small and medium business.

- Lithuanian Free Market Institute conducts research and disseminates ideas, facilitates debate on issues, and educates authorities and the public at large on their positions. The Institute does this through seminars and conferences, publication of a newsletter, and by participating in public debates. The Institute is one of the most prominent "think tanks" in Lithuania, and has played a major role in legislative reform and the creation of a more supportive environment for business activities. Their recent activities have included advocacy for private pension systems and legal reforms in the areas of privatization, company law, and leasing law.

- Lithuanian Banking, Insurance & Finance Institute works to provide training courses, to develop and maintain a library of reference materials, to train Lithuanian trainers, and to develop training materials. During the last four years the Institute has presented a variety of courses and seminars and has published 11 textbooks for its Distance Learning program. Based on published textbooks and distance learning studies, the Institute has decided to develop a Masters Degree program for bankers and financial specialists.

- Kaliningrad and Belarus Training: In early 1998, USAID identified several opportunities for having a positive impact on the development of small and medium enterprises in Lithuania. A program was designed to teach the art of market economies to entrepreneurs from Belarus and Kaliningrad region. The expected outcomes of training were closer economic ties among Lithuanian, Belarus and Kaliningrad businesses and profitable small entrepreneurs. This is to be achieved through effective application of market practices in Belarus and Kaliningrad based on enterprise experience in Lithuania. This is the first attempt to use the experience of Lithuanian entrepreneurs and training providers to facilitate non-Lithuanian (i.e., Belarus and Kaliningrad) business development. To date, program participants have found the training program to be more useful and applicable to their business situations than similar training programs in West European countries. Belarus, Kaliningrad and Lithuanian entrepreneurs are beneficiaries of this comprehensive program. It is expected that many more valuable contacts will be established.

■ The Panevėžys Management Training Center stall at the Business Fair, 1999

■ Training for Business Leaders at the Panevėžys Management Training Center, 1999

